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WEEKLY SUMMARY



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HIGHLIGHTS

Developments concerning the Atlantic Pact reached a new stage during the past week when western European public opinion began to exhibit marked concern over the exact position of the US on the military provisions of the Pact. Soviet propagandists were quick to seize upon these uncertainties as they continued their aggressive campaign against the Pact (see page 2). Meanwhile, the rumors which continue to emanate from Finland concerning Soviet plans for military action in the Scandinavian area are probably a related phase of this propaganda campaign.

The Chinese situation is continuing its steady deterioration as the consequence of the disintegration of Nationalist political unity and the flat refusal of the Communists to compromise on their harsh peace terms (see page 10). The confusion in Nationalist China, increased by Chiang Kai-shek's behind-the-scenes activities, is giving impetus to the establishment of semi-autonomous regimes in non-Communist areas.

The continuing Argentine economic-political crisis will probably not result in President Peron's resignation, but is likely to force some of his close political associates out of office (see page 14). Although Peron apparently has found a temporary political solution for the present crisis, the basic economic and labor problems remain.

WESTERN EUROPE

Atlantic Pact In continuing its aggressive propaganda attack against the Atlantic Pact, the Kremlin has asserted that French adherence would "trample on" the Franco-Soviet Treaty of 1944. This approach suggests that the USSR may be preparing to renounce its treaties with France and the UK and possibly also bring the issue of the Atlantic Pact before the UN as a threat to peace. During the coming weeks, the USSR probably will intensify its efforts both to divide and intimidate prospective Pact members, at the same time attempting to prove the needlessness of any such "aggressive" alliance against the USSR. In addition to Norway, the USSR will probably concentrate its attacks on such vulnerable countries as Denmark, Iceland, France, and Italy. Soviet propaganda will point to delays in concluding the Pact in an effort to contribute to the general anxiety concerning US intentions to support militarily its western European allies.

FRANCE

German Policy Although prospects for tripartite agreement on western Germany have improved somewhat as a result of Foreign Minister Schuman's recent assurances of increased French cooperation, settlement of the many outstanding issues involved in establishing a west German state will still be difficult. Hypersensitive fear of a strong Germany will continue to make the French reluctant to accept the US and British position on such matters as the proposed tripartite control mechanism, the status of Berlin in the new state, and the introduction of the western mark in Berlin. Schuman's recent assurances, therefore, although minimizing Communist and Gaullist chances to exploit the German

FRANCE

issues, will not cause an immediate or substantial reduction in French efforts at London to press for an acceptance of French views. In the matter of voting procedure for the tripartite military control authority, the French have apparently agreed that the US shall have a predominant voice in issues of foreign trade and finance; however, they are attempting to obtain a veto power for the French military governor by insisting upon unanimous agreement in matters of "fundamental" occupation policy, such as security problems and amendments to the German constitution. The French also desire the right of appeal to home governments on lesser questions when the three occupation powers disagree. Furthermore, the French oppose the inclusion of the western zones of Berlin in the new west German state; will only reluctantly and as a last resort agree to the introduction of the western mark as the sole currency for the western sectors of Berlin: and will continue to press for a decentralized German government.

GERMANY

Cartel System Growing resistance by German politicians and business men to attempts by AMG to establish "free enterprise" may eventually lead to a revival of the pre-war cartel system in Germany. Private business interests as well as political and economic leaders in the Laender governments are effectively nullifying AMG policy directives. The newly created "Functioning Economic Agencies" have assumed control over imports, exports, and distribution of raw materials, all hitherto administered by the occupying powers. These German agencies are dominated by the trade associations and possess almost unlimited powers to restrict trade practices. Moreover, despite AMG

GERMANY

directives abolishing all requirements for business licenses except those necessary to protect public health and safety, German legislators have thus far delayed amending laws requiring anyone who desires to open a new business or to enlarge an old one to prove his financial and personal reliability and to demonstrate the economic need for such an enterprise. Continuation of these German practices will create conditions which would greatly facilitate the growth of the pre-war cartel system.

ITALY

Government Weakness Although De Gasperi leadership during the past twelve months has enabled Italy to hold the line against inflation and to avoid any worsening of the serious unemployment problem, the Government has given no evidence of planning a bold, comprehensive program of legislative action to advance the general public welfare. Some phases of agrarian reform have been discussed in Parliament and the Cabinet has promised to examine fundamental legislation on this subject; no early action can be expected, however, because of disagreement within the Christian Democratic Party and opposition to this and other reform measures from both the extreme Right and the extreme Left. No program appears to be in preparation for reorganization of the tax system and of state-subsidized industries. More generally, the Government appears unable to view such individual problems in their relationship to an integrated solution. Another measure of Government inactivity is its failure to develop a program for effective utilization of US aid to speed longrange economic improvements.

EASTERN EUROPE

SOVIET UNION

Withdrawal of the USSR, the Ukraine, and UN Activity Byelorussia from the UN World Health Organization (WHO), rather than indicating a Soviet intent to leave the UN, probably reflects a tightening of security measures and a genuine Soviet doubt regarding the benefits of continued participation. Although the USSR expressed dissatisfaction with the heavy expenses of membership and asserted that the organization's aims had been altered, the Soviet decision to withdraw was apparently prompted by: (1) fear that Soviet medical technicians and scientists attending WHO conferences may be contaminated and defect to the west; (2) desire to avoid further "deviations" by Soviet scientists within the USSR from the doctrine of Soviet supremacy in biological and medical science; and (3) reluctance to permit western WHO personnel to enter the Soviet Union. Although the other Satellite representatives have not yet indicated whether they will follow the Soviet lead, the Yugoslav president of WHO has demonstrated his readiness to work independently with the western representatives and will probably remain at his post.

nists "in their place" is indicated by the arrest on a charge of espionage of Anna Louise Strong, an American journalist who is well-known for writings favorable to the USSR and the Chinese Communists. Although most of Miss Strong's recent writings on China have been shunned by the Soviet-Satellite press, her articles have been prominently featured in Yugoslavia, where there is some disposition to regard Chinese Communist Leader Mao Tsetung as a potential dissident, similar to Tito. Miss Strong reportedly was refused an exit visa to travel to China via Vladivostok, but expressed to US officials her determination to proceed to Chinese Communist territory despite this Soviet

SOVIET UNION

opposition. Her arrest as an "intelligence agent" and her deportation from the USSR seem calculated not only to discredit her in Communist circles generally but also to discourage Mao Tse-tung or Tito from welcoming her. Miss Strong's attitude toward the Chinese Communists has apparently negated some 25 years of propagandizing the Soviet cause. Soviet leaders also probably consider her too closely identified with the old Communist propaganda claim that the Chinese Communists are independent of Moscow. This line, in view of the vastly increased power and prestige of the Chinese Communist Party, has become potentially unrewarding for the Kremlin and will probably be abandoned soon.

HUNGARY

financial Crisis The USSR may be forced to grant a foreign-exchange or gold loan to Hungary, as has been done recently for Czechoslovakia, in order to bolster the Hungarian financial position and to forestall serious retardation of Hungary's industrial production. Hungary's critical foreign exchange position has been caused chiefly by: (1) increased orientation of exports to the USSR; (2) deliveries on account of reparations to the USSR; and (3) use of hard currency reserves for western imports.

GREECE

Military Situation The psychological effects of the dismissal of General Markos, as well as local military developments, are providing the Greek Army with a unique opportunity for effective action against the

GREECE

guerrillas. The signs of dissension within the Communist ranks which marked the ousting of Markos seem to have lowered guerrilla morale and improved that of the Greek Army, which has been further heartened by the windup of the prolonged anti-terrorist campaign in the Peloponnesus. Moreover, the larger guerrilla concentrations now being led by Zachariades will provide the Greek Army with a better opportunity for effective operations. Although the army's slow action permitted the guerrillas who seized Karpenision to withdraw with some 2,000 forced recruits, the army has shown new spirit in its successful defenses of Serrai and of Florina, from which some 4,000 guerrillas are now in retreat. A newly effected revision of command structure for northern and central Greece may facilitate more rapid action against future guerrilla raids. These army advantages, however -- both psychological and tactical -will be only temporary unless the army can utilize them more vigorously, without becoming overconfident.

NEAR EAST - AFRICA

Rhodes Deadlock As the Egyptian-Israeli armistice negotiations at Rhodes enter the second month. agreement appears to be as far away as ever. The UN Acting Mediator's proposals for a compromise were accepted with minor changes by Egypt but were rejected by the Israelis, who are outspoken in their determination to impose a "victor's peace." Meanwhile, although several of the other Arab states have tentatively agreed to initiate negotiations with Israel. their full agreement is contingent upon successful conclusion of the Egyptian talks. The UN Conciliation Commission continues to keep aloof from the current discussions, fearing that if it should become identified with an unsuccessful outcome, its subsequent efforts to reach a settlement would be prejudiced. On the credit side of the ledger should be entered the fact that hostilities in Palestine have not been resumed during the talks and that neither Egypt nor Israel has taken the decisive step of withdrawing from the parley. It appears increasingly unlikely, however, that the Rhodes conference will provide any solid foundation for a permanent peace.

IRAN

Shah's Plans Following the recent attempt on his life, the
Shah appears determined to take action which
may have serious repercussions in Iran. Exasperated by the
chronic irresponsibility and inaction of the Majlis, he has
long advocated legislation and constitutional reform which
would allocate greater powers to him. Although the Shah has
thus far followed US-UK advice not to act precipitately, he
is now apparently convinced that the recent attempt on his
life has brought about a national crisis and that strong measures are needed. He is reportedly planning to dissolve the

IRAN

Majlis and to summon a constituent assembly in the near future. In thus attempting to gain greater powers, the Shah is probably motivated by a sincere desire to strengthen Iran as well as by personal ambition. It seems likely, however, that sudden and drastic action on his part would arouse the anger of Iranian liberals and of those conservative elements opposed to granting him more power. The resultant political confusion might well facilitate Soviet exploitation and infiltration, the very things from which the Shah is seeking to protect Iran.

ISRAEL

Despite active Egyptian opposition, the Air-Sea Traffic new Israeli state may succeed in retaining Satellite-scheduled air service and in establishing adequate surface transportation with the rest of the world. Egypt's refusal to permit commercial air operations into Cairo by air carriers serving Israel virtually bars all scheduled western air carriers from Israel, and scheduled service has thus far been restricted to the Czechoslovak airline. Acquisition by Czechoslovakia of the new Soviet IL-12 air transports, which are capable of non-stop flights to Israel from points in either Yugoslavia or Bulgaria, may enable the Czechoslovaks effectively to circumvent US-UK efforts to prevent Satellite air operations in the Middle East. Israel's attempts to establish surface transportation under its own control are also progressing satisfactorily. The new Israel-America line has already acquired 7 of the 10 vessels estimated to be necessary for hauling virtually all US exports to Israel.

FAR EAST

CHINA

Prospects for a negotiated peace in China continue to deteriorate as a result of further disintegration of the Nationalist position and the Communists' refusal to compromise on their harsh peace terms. Meanwhile, the struggle for power in non-Communist China is growing more intense, and the increasing confusion of authority within the National Government is giving impetus to the establishment of semi-autonomous non-Communist regimes.

Chiang's Role Chiang Kai-shek is still playing an important role in the behind-the-scenes struggle for control of the remaining Nationalist resistance forces. Despite his reported assurances to Acting President Li Tsung-jen that he would not participate in Chinese politics for the next five years, Chiang continues to exercise considerable influence in the operation of the National Government through his hold over many civilian and military officials. He remains leader of the Kuomintang, which dominates the Government, and is particularly influential among military leaders in the Shanghai-Nanking area, Chinese Air Force personnel, and Nationalist administrators in Taiwan. The Chiang-appointed Cabinet now in Canton continues to act independently of Li who has remained in Nanking.

Kwangsi Clique A unified Nationalist resistance to the Communists is further threatened by the reported plans of General Pai Chung-hsi. Pai supports Acting President Li and commands the personal loyalty of the troops in the Hankow area, one of the few remaining Nationalist troop concentrations. Recent evidence indicates Pai does not intend to defend Hankow, if the Communists strike for that area, but will probably move far south to his native province of Kwangsi, where he may seek to establish his own regime.

CHINA

Northwest Autonomy Centralized Nationalist control over the northwest provinces is threatened by the recent activities of General Chang Chihchung, who was sent by Li to Sinkiang to negotiate a trade agreement with the USSR. Chang conferred en route with Moslem leaders of the northwest provinces who reportedly plan to resist the Chinese Communists and to establish a northwest "anti-Communist" defense bloc. Realizing the futility of his dealing with the Chinese Communists as a representative of the impotent Li, Chang has resigned from the official Nanking peace delegation and may be preparing to sever all connection with the National Government. Chang will presumably still proceed to Sinkiang, but he is expected to negotiate in his own interests. Conclusion of a Sinkiang agreement with the USSR would probably result in the creation of autonomous regimes for Sinkiang and parts of the other northwest provinces under the leadership of Chang and local warlords.

Communist Regimes Completing the picture of the progressive fragmentation of China, the Chinese Communists have announced that the 45 million people of the recently "liberated" provinces between the Yellow and Yangtze Rivers will soon have a "unified democratic government" elected by a "congress of people's representatives." This Central Plains government would be the third such regime in Communist China. The formation of this latest regional government and the fact that the Chinese Communist armies have called a halt short of objectives which they could easily seize suggest that Communist military conquests have outrun preparations for political consolidation. Because of this lack of consolidation, it may take several months for the Chinese Communists to create a national government for all of China which could claim international recognition.

INDONESIA

Dutch Intentions The apparent intention of the Dutch Cabinet to accept, with reservations, the Security Council resolution on Indonesia may open the way for renewed negotiations for an Indonesian settlement. Fall of the Dutch Cabinet over Indonesian policy was averted by the appointment of a more liberal Minister of Overseas Territories. This selection indicates that Foreign Minister Stikker plans to exercise greater leadership in the effort to reach a settlment on Indonesia. Stikker may also take a direct part in renewed negotiations with Indonesian Republican leaders. Meanwhile, although inter-party agreement has not been reached on the extent to which the Dutch are willing to meet SC demands, the Cabinet, after sharp parliamentary criticism, will probably receive the support necessary for implementing a milder policy. However, despite this milder policy and Stikker's excellent chances of winning the confidence of Republicans in Indonesia, Stikker's efforts to reach a speedy agreement will probably be hindered by binding instructions from both the Cabinet and Parliament.

BURMA

British Policy The possibility that the full-scale civil warfare in South Burma will lead to anarchy and dissolution of the present Burmese Government is a cause of increasing concern to the UK. British interests throughout Asia would be seriously affected by the further reduction of Burmese rice exports. Such a reduction would have severe repercussions in such areas as Malaya, India, Pakistan, and Ceylon. In addition, if the Burmese Government either disintegrates completely or falls under Communist domination, some 50 million pounds in British capital

BURMA

investments in Burma (already nationalized or threatened with nationalization) would probably be liquidated without compensation. The UK is thus considering some indirect method of bolstering the present Burmese regime, possibly by means of a joint loan from the UK and other countries.

SIAM

Anti-Royalist Group A more stable Stamese Government is in prospect if recent moves by Premier Phibul to join forces with other anti-Royalists come to fruition. In a recent conciliatory broadcast presumably directed at Pridi, exiled former premier, Phibul declared that he would support any action which would unite Siam or prevent a national calamity. The developments motivating this overture probably are an increase of Royalist representation in the government, the Royalist nature of the new constitution, and Phibul's diminishing ability to exact the undisputed loyalty of army and police elements. Phibul and Pridi are the most important figures of the 1932 civilian-military clique which overthrew Siam's absolute monarchy and established a constitutional monarchy. Since 1932, governmental control has remained with one or the other of the rival factions of the clique but, despite political differences, they have always united to prevent the Royalists from regaining political control. If, however, the two factions reach an agreement, Pridi may emerge the dominant political figure and a Siamese government might result which would favor increased cooperation with the west and greater participation in Asian affairs.

WESTERN HEMISPHERE

ARGENTINA

Crists Continues The continuing Argentine economic-political crisis, although apt to force some of Peron's close political associates out of office, is unlikely to result in the resignation of Peron himself. In response to Army pressure, Peron reportedly has agreed to dissociate Senora Peron from the government and to renew his hitherto futile efforts to deal with the country's acute economic and labor problems. Indicative of Peron's problems is the current printers' strike, which has deprived Buenos Aires of newspapers since 8 February. If the government persists in using charges of Communism as a pretext for jailing the printers, it will discredit this procedure as a means of resisting more serious and widespread inflationary wage demands in the future. On the other hand, if the government compels the publishers to grant the printers' demands, it will compromise its anti-inflationary stand against wage increases.

THE PLIGHT OF THE ARAB REFUGEES

The future of the more than 700,000 Arab refugees remains unsettled. Israel has no intention of permitting their return in any substantial numbers, and the Arab states are neither willing nor able to absorb them. Israel is preoccupied with assimilating immigrants from other countries, and Israeli spokesmen declare that Israel's economy cannot support the return of the Arabs and that in any event their return would endanger Israeli security. In taking over Arab property for their own use, the Israelis assert that they are merely taking advantage of a situation which they themselves did not create.

The countries neighboring Palestine have stretched their resources as far as possible in extending temporary aid to the refugees and would be unable to absorb the refugees permanently without assistance from outside. Iraq with 5,000 refugees and Transjordan with over 80,000 have an additional responsibility for 200,000 in central Arab Palestine—a constant drain on almost non-existent resources. Syria with 100,000 is weeks behind in its dole program. Lebanon is nearly bank-rupt; furthermore, the 90,000 refugees now in the country could not be integrated into its delicately balanced Christian—Moslem grouping. The 8,000 refugees in Egypt are all that the Egyptians can handle; the 250,000 in the coastal area of Palestine occupied by the Egyptian Army endure the worst conditions of all.

The danger exists that the refugees, once they are fully aware of their plight, will be so embittered as to become a source of permanent unrest in the Arab world. Scattered riots have already occurred, and thievery is increasing. As idle malcontents, the refugees could be readily exploited by subversive elements. Employment would go far toward dissipating this danger, but it is not available in the impoverished

Arab states. Foreign financing would be necessary for projects which would both provide a livelihood for the refugees and promote permanent resettlement. Vast undeveloped regions in Transjordan, Saudi Arabia, Syria, and Arab Palestine could be utilized for such projects as irrigation, fisheries, roads, and oil pipe lines. Administration would be difficult, and the reward to investors might not be immediate, but the refugees would face exile with less hostility if they could look forward to permanent shelter and regular meals.

SOVIET PLANS FOR AN EAST GERMAN STATE

Further Communist designs to integrate eastern Germany into the political and economic system of the Soviet bloc were apparent at the recent Socialist Unity Party (SED) Congress in Berlin. Speeches by Satellite delegates and Congress approval of the Oder-Neisse line as Germany's eastern boundary laid renewed stress on Communist efforts to reconcile the Satellite states to closer collaboration with the Soviet Zone and to eventual inclusion of the area in the Soviet orbit. Other action at the Congress indicates that the USSR is still attempting to insure Communist control of east Germany. By reviving advocacy of a "broad democratic front," the Communists are seeking the political support of formerly uncooperative elements. The establishment of an SED "Politburo" was designed to discipline the SED in order to make it a more effective instrument of Communist control.

The reversal of the SED stand for the incorporation of Berlin into the Soviet Zone indicates that the Communists believe the Berlin impasse will continue. In line with the Soviet theme of a "unified Germany," this tactical renunciation of Communist claims that Berlin is an integral part of the Soviet Zone may be designed to combat possible inclusion of the three western sectors of the city in a west German government. Moreover, by omitting Berlin from a future east German' state, the USSR may feel that it can insure control over the new state by maintaining Soviet troops there to guard communication lines to a Soviet garrison in Berlin. Although the Congress again stressed the theme of German unity, Communist tactics at the Congress once more suggest that the USSR intends to create an east German state which will claim sovereignty over all Germany. The formation of such a state would probably be timed to counter the formation of a west German provisional government.

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